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CONSUMER INFORMEDNESS AND LOYALTY BENEFITS ACCRUAL PERFORMANCE

A Research-in-Progress Submission

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Abstract

Recent theoretical developments in the theory of consumer and firm informedness have brought a new perspective to understanding important business problems in IS research. In this research, we adopt the theory of consumer informedness in the context of credit card loyalty programs in the retail banking industry. Leading companies in the airlines, hospitality, retail banking and other industries have widely implemented loyalty programs, and the participation of consumers is greater than ever before. Financial services firms commonly offer credit card customers loyalty awards. A large body of research in economics, marketing, and information systems (IS) has sought to understand the roles and mechanisms in loyalty programs for the airlines, hospitality and retail banking industries. Our work suggests how banks can enhance their capability to improve consumer welfare through context-aware sharing of action-relevant information. To this end, we have been conducting a multi-year study on card loyalty that focuses on the performance of customer accrual of loyalty benefits from their card transactions. We are prohibited from providing details in this work-in-progress submission due to a non-disclosure agreement, but plan to discuss additional aspects of this work in our conference poster and presentation.

Keywords: Beta regression, consumer welfare, credit cards, customer informedness, econometrics, financial services, loyalty programs, retail banking.

Acknowledgment. This research was done under a binding non-disclosure agreement with the corporate sponsor, requiring the anonymization of all data that were used and analyzed. No personally-identifiable information about customers has been disclosed or shared. Research Excellence.
1. INTRODUCTION

Using the theory of consumer informedness, this research conducts empirical analysis to explore a number of key issues: (1) How does informedness about credit card loyalty programs affect the benefits that customers obtain through their use of such programs? (2) Do the effects vary across different customer segments based on the credit card types they hold and the merchant types they purchase from? (3) What implications can we point to for improving customer informedness as a way to improve loyalty program performance?

2. THEORY AND RESEARCH CONTEXT

Consumer informedness. According to consumer informedness theory (Markopoulos and Clemons 2013, Li et al. 2014), higher consumer informedness about how to obtain benefits from credit card loyalty program improvements is likely to result in higher benefits accrual. We propose:

- **Hypothesis 1 (Informedness and Customer Benefits Accrual Performance).** Higher consumer informedness about the benefits that are available in a loyalty program is associated with higher performance in terms of their performance with respect to the accrual of loyalty benefits.

On the other hand, customers face complex decisions when they assess which credit card is appropriate card to use:

- **Hypothesis 2 (Customer Benefits Accrual Performance in Complex Decision-Making Settings).** Less well-informed customers who transact in more complex decision-making settings tend to have lower performance with the accrual of benefits in loyalty programs.

Social learning. Social learning theory points out that people learn new patterns of behavior through direct experience or observation of the behavior of others (Bandura 1977). For the credit card loyalty benefits contexts, this leads us to assert:

- **Hypothesis 3 (Customer Experience and Benefits Accrual Performance).** Customers adjust their purchase behavior based on experiential learning over time when using a loyalty program, and they achieve higher performance with the accrual of benefits as a result.

We explore a unique data set of customer-level observations from a large retail bank, which provided data from its credit card loyalty programs for a three-year period. We are not able to provide any additional details at this time due to a non-disclosure agreement.

3. EMPIRICAL MODEL AND ESTIMATION METHODS

Estimation model. We propose the following baseline model to estimate the benefits accrual performance efficiency, using a set of main effects and control variables, with the model’s error term.

\[
\text{BenefitsAccrual}_{it} = \alpha + \beta_1 \text{ValCust}_{it} + \beta_2 \text{LoyaltyMember}_{it} + \beta_3 \#\text{Cards}_{it} + \beta_4 \#\text{ProdCateg}_{it} \\
+ \beta_5 \text{TransVolume}_{it} + \beta_6 \text{AvgTrans}_{it} + \sum_{c \in C} \delta_c \text{Demographics}_{cit} + \epsilon
\]
Estimation on different customer segments. We broke down the large data set into segments based on different credit card types and different merchant types. By restricting the credit card and merchant types, we control for the effects on our results from these two factors. We are also exploring other comparisons.

Empirical methods. We use two different methods to estimate our model: the beta regression and quasi-likelihood methods. We also will employ other estimation methods for robustness checks, including linear, logistic, quantile, and piecewise spline regression.

4. WORK-IN-PROGRESS

We have developed some preliminary research results on customer informedness in our research context that are subject to a non-disclosure agreement review process. We are not able to report them until we obtain the corporate sponsor’s sign-off and permission for disclosure. We expect to share the preliminary results with the sponsor shortly, and receive the necessary permission to publish prior to the conference.

REFERENCES